To fix or not to fix your home loan!

By: Harry Pontikis

A fixed rate loan is one that maintain the same interest rate over a set period of time regardless of market fluctuations in interest rates.

Benefits:

- ✓ A fixed rate home loan can offer stability for those conscious of a budget and who want to take a medium-to long term position on a fixed rate.
- ✓ It can also protect borrowers from the volatility of potential rate movements.
- ✓ Fixed rates are locked in for an amount of time that is pre-arranged between you and your lender – this could be a term of one to ten years depending on the lender

Fixed rate loans usually come with a few provisos.

- Borrowers restricted to maximum payments during the fixed term and can face hefty break fees for paying off the loan early, selling the property or switching to variable interest during the fixed rate period.
- Also, you may not be able to fully leverage an offset account against a fixed rate loan.
- Borrowers should consider, and be aware, that at the end of the fixed-rate term the loan will usually 'revert' to a variable rate, resulting in 'rate shock' if borrowers have been use to the lower fixed rates and variable rates have risen.

Variable rate loans

The interest rate on a variable rate loan can change throughout the term of the loan in reaction to market fluctuations in interest rates. The interest rate on a variable rate loan can go up or down.

Benefits:

- ✓ A variable rate loan may come with features such as an offset account (which can reduce the amount of interest you pay), a redraw facility and
- ✓ the ability to make additional repayments either regularly or in a lump sum.
- ✓ A variable rate loan can offer flexibility; however, borrowers should consider the capacity to service the loan if the interest rate increased.

Risks:

- In uncertain economic circumstances, variable loans may increase the pressure borrowers face to repay their mortgages.
- High inflationary periods usually result in increasing interest rates.
- Variable loans put family and business budgets into the hands of the Reserve Bank of Australia and / or in the government's economic policy.

Split loans – the best of both worlds;

A loan can also be split – this option allows you to have some of your loan at a fixed rate and some at a variable rate. You can split your loan 50/50 or at a ratio that meets your needs.

Eventhough this sounds like a great solution as it offers the benefit of 'both worlds', it also has many of the same limitations of both variable and fixed. i.e., if you sell your home or wish to payout your mortgage, you will pay the fixed break fees and if the variable rates increase, you will pay extra for the variable component of your loan.

The best solution for your situation is to speak to your experienced, Finance Broking Advisor, who specialises in the construction industry who will provide specific and tailored advice for your situation!